

STATEMENT OF
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AND INTERNATIONAL AFFAIRS
DEPARTMENT OF TRANSPORTATION
BEFORE THE
SUBCOMMITTEE ON AVIATION
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
JUNE 4, 1997

THANK YOU MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. AS WE MOVE INTO THE SECOND TERM OF THE CLINTON ADMINISTRATION WITH A NEW SECRETARY OF TRANSPORTATION, I WOULD LIKE TO TAKE A FEW MINUTES OF THIS MORNING TO REVIEW THE DEPARTMENT'S ACTIVITIES IN EXPANDING ECONOMIC OPPORTUNITIES FOR INTERNATIONAL AVIATION. FOR TODAY'S HEARING, I REALIZE THAT YOU ARE PRIMARILY INTERESTED IN THE CURRENT STATUS OF OUR AVIATION RELATIONSHIP WITH THE UNITED KINGDOM. THEREFORE, I WILL GET RIGHT INTO THAT SUBJECT. HOWEVER, A REPORT ON THE U.K. ALONE WOULD LEAVE YOU WITH A VERY INCOMPLETE PICTURE OF IMPORTANT, RECENT AVIATION EVENTS. I WILL PUT OUR U.K. RELATIONSHIP IN THE CONTEXT OF OUR GLOBAL ACTIVITY AND THE SUBSTANTIAL PROGRESS OF OUR INDUSTRY WORLDWIDE.

BUT FIRST, THE U.K.. LET ME BEGIN WITH A SHORT SCENE SETTER FOR DISCUSSION OF THIS HIGHLY RESTRICTED AVIATION MARKET.

THE ROUTE ASPIRATIONS OF U.S. AIRLINES, THE REQUESTS FOR SERVICE FROM U.S. CITIES, AND YOUR INTEREST, ITSELF, ALL TESTIFY TO THE NEED TO OPEN UP THIS CRUCIAL SECTOR IN THE U.S.-U.K. ECONOMIC RELATIONSHIP. THE U.S.-U.K. AVIATION AGREEMENT, BERMUDA 2, STANDS IN STARK CONTRAST NOT ONLY TO GENERAL BRITISH ECONOMIC PHILOSOPHY BUT ALSO TO THE LEADERSHIP ROLE THAT BRITAIN PLAYED IN INTERNAL EUROPEAN AVIATION LIBERALIZATION. BUT THIS IS NOT SIMPLY A DEBATE ABOUT AN INCONSISTENT U.K. APPLICATION OF ECONOMIC THEORIES. THE REAL-WORLD IMPACT OF THE BERMUDA 2 RESTRICTIONS HAS MEANT THAT U.S. CARRIERS CANNOT DETERMINE THEIR CAPACITY AND PRICE LEVELS WITHOUT GOVERNMENT INTERFERENCE, U.S. CITIES ARE DEPRIVED OF SERVICE, AND THE RELATIVE PARTICIPATION OF U.S. CARRIERS IN THE MARKET IS ARTIFICIALLY CONSTRAINED.

ALTHOUGH SOME U.S. CARRIERS HAVE PLACED INCREASED EMPHASIS ON TAPPING GLOBAL TRAFFIC FLOWS THROUGH EUROPEAN GATEWAYS OTHER THAN LONDON, THE U.S.-U.K. MARKET REMAINS AN INTEGRAL PART OF THE TRANSATLANTIC STRATEGY OF MOST U.S. INTERNATIONAL CARRIERS. WE RECOGNIZE THE IMPORTANCE OF THIS AVIATION MARKET, AND ITS LIBERALIZATION HAS BEEN AT THE FOREFRONT OF OUR INTERNATIONAL AVIATION AGENDA..

NOW TO THE HEART OF THE DISCUSSION FOR THIS HEARING: WHERE ARE WE IN OUR RELATIONSHIP WITH THE U.K., AND WHERE ARE WE GOING.

THE DISAPPOINTING NEWS IS THAT WE HAVE NOT YET ACHIEVED THE LIBERALIZATION THAT HAS BEEN OUR GOAL SINCE THE BEGINNING OF THE CLINTON ADMINISTRATION. DESPITE A 1993 U.K. COMMITMENT TO ACHIEVE

AVIATION LIBERALIZATION IN A YEAR, THE BRITISH HAVE CLUNG TIGHTLY TO THE PROTECTIONIST FRAMEWORK OF BERMUDA 2.

HOWEVER, THE ENCOURAGING NEWS IS THAT WE HAVE NOT REACHED THE END OF THE STORY. COMMERCIAL IMPERATIVES ARE AGAIN FORCING REGULATORY APPROACHES TO CHANGE. THE PROPOSED AMERICAN AIRLINES-BRITISH AIRWAYS ALLIANCE HAS FINALLY PROVIDED THE BRITISH WITH THE INCENTIVE TO JOIN WITH US IN A FUNDAMENTAL RESTRUCTURING OF THE AVIATION REGIME. ALTHOUGH THE BRITISH ELECTIONS AND CHANGE OF GOVERNMENT HAVE RESULTED IN A TEMPORARY HALT TO FORMAL NEGOTIATIONS, THE OPEN-SKIES TALKS HAVE MADE PROGRESS. THAT PROGRESS HAS NOT BEEN AS RAPID AS WE ANTICIPATED, NOR AS WE WOULD HAVE PREFERRED, BUT IT IS REAL NONETHELESS.

WHILE KEEPING IN MIND THE NEGOTIATOR'S CAVEAT THAT "NOTHING IS AGREED UNTIL EVERYTHING IS AGREED", I AM PLEASED TO REPORT THAT THE BRITISH HAVE ACCEPTED THE ELIMINATION OF THE "TWO-CARRIER" RULE THAT HAS RESTRICTED U.S. CARRIER ENTRY AT HEATHROW. IN ADDITION, IN A NEW REGIME, NO U.S. CITIES WILL BE ARTIFICIALLY BARRED FROM SECURING NONSTOP FLIGHTS TO LONDON FROM ANY INTERESTED U.S. OR U.K. AIRLINES. OPERATORS OF PASSENGER CHARTERS WILL BE ABLE TO USE EITHER U.S. OR U.K. RULES IN STRUCTURING THEIR OPERATIONS TO RESPOND TO MARKET DEMAND. THAT FLEXIBILITY WILL NOT COME AT THE EXPENSE OF CONSUMER PROTECTION SINCE THIS CHOICE OF RULES DOES NOT ELIMINATE THE OBLIGATIONS TO PROTECT PASSENGER FUNDS AND GUARANTEE PASSENGER CANCELLATION AND REFUND RIGHTS.

MOST OF THE OTHER MUNDANE, BUT ESSENTIAL, OPEN-SKIES FRAMEWORK ISSUES THAT GUARANTEE AIRLINES A STABLE OPERATING REGIME AND AN ACCEPTABLE "DOING-BUSINESS" ENVIRONMENT HAVE ALSO BEEN AGREED.

SWITCHING PERSPECTIVES TO THE "GLASS IS HALF EMPTY" -- WHAT IS LEFT TO BE DONE? DESPITE THE PROGRESS THAT WE HAVE MADE, SEVERAL MAJOR ISSUES REMAIN OUTSTANDING. THE BRITISH HAVE AGREED, IN PRINCIPLE, TO A FREE PRICING REGIME. HOWEVER, THEY WISH TO DEFER ITS APPLICABILITY TO INTERIOR U.S. CITIES FOR SEVERAL YEARS. THE BRITISH RECOGNIZE THAT A CORE ELEMENT OF OPEN SKIES IS UNRESTRICTED ROUTE RIGHTS. NEVERTHELESS, THEY HAVE RAISED CONCERNS ABOUT THE COMPETITIVE IMPACT ON SMALLER U.K. AIRLINES OF U.S. CARRIER FIFTH-FREEDOM OPERATIONS, PARTICULARLY IN THE INTRA-EUROPEAN ALL-CARGO AREA. THE ONE SIGNIFICANT "DOING BUSINESS" ISSUE THAT MUST STILL BE ADDRESSED IS GROUNDHANDLING. IN THIS AREA, THE BRITISH WOULD PREFER TO RESERVE MORE DISCRETION FOR AIRPORTS TO LIMIT AN AIRLINE'S ABILITY TO SERVICE ITS OWN FLIGHTS THAN IS ALLOWED UNDER THE U.S. APPROACH.

THE BRITISH ARE ALSO SEEKING A DISPUTE RESOLUTION MECHANISM THAT THEY DESCRIBE AS PROVIDING A TIMELY AND EFFECTIVE MEANS FOR ADDRESSING ANTICOMPETITIVE BEHAVIOR. THE PRINCIPLE OF FAIR COMPETITION IS ONE TO WHICH WE ALSO ASCRIBE. HOWEVER, WE NEED TO ENSURE THAT THE PLAY OF MARKET FORCES ANTICIPATED UNDER AN OPEN-SKIES REGIME IS NOT UNDERCUT BY CONTINUING GOVERNMENT INTERVENTION CLOAKED AS "DISPUTE RESOLUTION". THE BRITISH ALSO REMAIN INTERESTED IN ACCESS TO "FLY AMERICA" TRAFFIC. WE ARE VERY CONSCIOUS OF THE LINK BETWEEN U.S.

GOVERNMENT-FINANCED TRAFFIC AND THE CRAF PROGRAM, AND HAVE COORDINATED CLOSELY WITH THE DEPARTMENT OF DEFENSE ON THIS ISSUE.

I CAN ASSURE YOU THAT I HAVE REPEATEDLY EMPHASIZED TO MY U.K. COUNTERPART, AND THE U.S. DELEGATION HAS SECONDED THE MESSAGE, THAT THERE IS NO POSSIBILITY FOR ANTITRUST IMMUNITY IF ALL THE ESSENTIAL OPEN-SKIES ELEMENTS ARE NOT PRESENT AND EXERCISABLE. MOREOVER, AS WITH THE OTHER ALLIANCES, OPEN-SKIES IS A NECESSARY, BUT NOT SUFFICIENT, PRECONDITION BEFORE IMMUNITY CAN BE GRANTED. COMPETITIVE CONSIDERATIONS MUST ALSO BE ASSESSED BY BOTH THE JUSTICE DEPARTMENT AND OURSELVES. THEREFORE, WE HAVE ALSO CONSISTENTLY LINKED A NEW AGREEMENT WITH A COMPETITIVELY EFFECTIVE PRESENCE OF U.S. CARRIERS AT LONDON'S HEATHROW AIRPORT.

I RECOGNIZE THAT THE ISSUES THAT REMAIN TO BE RESOLVED ARE DIFFICULT AND INVOLVE KEY OPEN-SKIES ELEMENTS. NEVERTHELESS, I AM CAUTIOUSLY OPTIMISTIC THAT THE NEGOTIATIONS WILL SUCCEED, AND OPEN SIGNIFICANT NEW OPPORTUNITIES FOR U.S. CARRIERS IN THIS MARKET.

GIVEN THAT ASSESSMENT, IT WAS IMPORTANT TO LAY THE PROCEDURAL GROUNDWORK TO ALLOW ALL INTERESTED PARTIES TO PROVIDE INPUT ON THE PROPOSED AMERICAN AIRLINES-BRITISH AIRWAYS ALLIANCE ON A TIMELY BASIS. U.S. CARRIERS AND CITIES WANT ENHANCED ACCESS TO THE U.K. MARKET, PARTICULARLY HEATHROW AIRPORT. WE MUST NOT BE IN A POSITION WHERE REGULATORY TIME-FRAMES UNNECESSARILY DELAY THE EXERCISE OF ANTICIPATED NEW OPPORTUNITIES. IN TAKING THIS STEP, I CAN ASSURE YOU THAT THERE HAS BEEN NO CHANGE IN THE FUNDAMENTAL DEPARTMENT POSITION THAT, AT A MINIMUM, OPEN SKIES MUST BE AGREED BEFORE WE WILL ISSUE EVEN A TENTATIVE DECISION ON THE GRANT OF IMMUNITY.

WHILE OUR NEGOTIATIONS WITH THE U.K. ARE STILL VERY MUCH A "WORK-IN-PROGRESS", EFFORTS WITH OTHER AVIATION PARTNERS HAVE BEEN FAR MORE FRUITFUL. IT IS IMPORTANT THAT I SHARE WITH YOU THE CHANGING WORLD ENVIRONMENT IN ORDER TO PUT THE STRUGGLES WITH THE U.K. IN CONTEXT. AS MORE FOREIGN AIRLINES AND THEIR GOVERNMENTS SUBSCRIBE TO LIBERALIZATION, THE CENTRAL ORGANIZING PRINCIPLE OF AVIATION ECONOMICS IS RAPIDLY SHIFTING FROM TIGHTLY REGULATED BILATERAL REGIMES TO MARKET ORIENTED GLOBAL NETWORKS, AND THE POSITIVE EFFECTS ARE CLEAR.

OUR SUCCESSFUL PROMOTION OF OPEN SKIES AND, WHEN NECESSARY, PHASED LIBERALIZATION OF AVIATION REGIMES HAS CONTRIBUTED SUBSTANTIALLY TO THE TURN AROUND OF OUR AIRLINE INDUSTRY. AFTER YEARS OF FINANCIAL CRISES IN THE EARLY 1990S AND A RESURGENCE IN PROTECTIONISM BY MANY FOREIGN GOVERNMENTS, TODAY WE CAN REPORT THAT U.S. INTERNATIONAL AIRLINES ARE RECORDING RECORD PROFITS AND HAVE SOLID PROGNOSSES FOR THE YEARS TO COME.

IN THE FOUR YEARS SINCE PRESIDENT CLINTON ESTABLISHED PROCOMPETITIVE AIRLINE INITIATIVES AS AN ADMINISTRATION PRIORITY, U.S. AIRLINES HAVE MADE TREMENDOUS GAINS IN INCREASING TRAFFIC AND PROFITABILITY. FOR 1996, THE MAJOR PASSENGER AND CARGO AIRLINES REPORTED A COMBINED OPERATING PROFIT OF \$6 BILLION AND A COMBINED NET PROFIT OF \$2.8 BILLION.

INTERNATIONAL OPERATIONS ALONE GENERATED A COMBINED OPERATING PROFIT OF \$629 MILLION AND A NET PROFIT OF \$204 MILLION.

ON THE TRAFFIC SIDE, THE NUMBER OF INTERNATIONAL PASSENGERS AND FREIGHT TONS CARRIED BY U.S. AIRLINES HAS SHOWN SIMILARLY STRONG RESULTS. FROM 1992 TO 1996, U.S. AIRLINE PASSENGER TRAFFIC INCREASED OVER 22 PERCENT - IN REAL TERMS THAT MEANS 10 MILLION MORE PEOPLE ARE FLYING ON OUR CARRIERS. FOR FREIGHT, THE GROWTH RATE IS EVEN MORE IMPRESSIVE. FREIGHT TRAFFIC IS UP BY OVER ONE MILLION TONS; THAT REPRESENTS GROWTH OF NEARLY 59 PERCENT IN JUST FOUR YEARS. MOREOVER, THESE NUMBERS DO NOT EVEN TAKE INTO ACCOUNT THE BENEFITS THAT U.S. AIRLINES AND THEIR AIR TRANSPORTATION CONSUMERS DERIVE FROM CODE-SHARING RELATIONSHIPS.

SUCH DRAMATICALLY IMPROVED PERFORMANCE CERTAINLY CANNOT BE ATTRIBUTED TO A SINGLE FACTOR. THE GENERAL UPSWING ENJOYED BY MANY ECONOMIES OF THE WORLD, COST REDUCTIONS DELIVERED BY MANAGEMENT EFFICIENCY MEASURES, AND THE INCREASING NEED FOR AIR SERVICES CREATED BY THE GLOBALIZATION OF OTHER ECONOMIC SECTORS, ARE A FEW IMPORTANT CONTRIBUTORS TO THE INDUSTRY REBOUND. TO CONTINUE GROWING, THE AIRLINE INDUSTRY MUST TAKE ADVANTAGE OF TOMORROW'S OPPORTUNITIES WHILE MEASURING UP TO TODAY'S DEMANDS, CREATE NEW MARKETS WHILE STIMULATING OLD ONES, RESHAPE ITSELF, AND MAKE PLANS FOR A VIABLE FUTURE IN AN UNPREDICTABLE WORLD. CENTRAL TO THAT ABILITY IS THE FLEXIBILITY FOR AIRLINES TO RESPOND CREATIVELY AND QUICKLY TO MULTIPLE INTERNAL AND EXTERNAL FACTORS. WITHOUT THAT FLEXIBILITY, THE INDUSTRY'S POTENTIAL CANNOT BE REALIZED. THE AVIATION LIBERALIZATION POLICY DEVELOPED AND IMPLEMENTED BY THIS ADMINISTRATION SEEKS TO CREATE A GLOBAL ENVIRONMENT THAT ALLOWS WELL MANAGED, COMPETITIVE AIR TRANSPORTATION COMPANIES TO DELIVER THE BEST POSSIBLE TRANSPORT OPTIONS TO THE TRAVELLING AND SHIPPING PUBLIC WHILE EARNING PROFITS FOR OWNERS AND OFFERING WELL PAYING JOBS TO EMPLOYEES. IN THIS CONNECTION, IT IS SIGNIFICANT THAT U.S. AIRLINES EMPLOY OVER SIX HUNDRED THOUSAND PEOPLE, AND U.S. AIRLINE ACTIVITY HAS CONTRIBUTED TO CREATING HUNDREDS OF THOUSANDS OF JOBS IN ASSOCIATED INDUSTRIES.

NO LONGER ARE WE ALONE IN SUPPORTING A LIBERAL GLOBAL AVIATION REGIME. AS EVIDENCE, I POINT TO THE REPORT ON INTERNATIONAL AIR TRANSPORTATION RECENTLY RELEASED BY THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (THE OECD). THE OECD, AN ORGANIZATION OF MAJOR INDUSTRIAL, MARKET-BASED ECONOMIES, DRAWS ITS 29 MEMBER STATES FROM COUNTRIES IN EUROPE, NORTH AMERICA AND THE PACIFIC AREA. FROM THIS BROAD BASE, THE REPORT, ENTITLED THE FUTURE OF INTERNATIONAL AIR TRANSPORTATION POLICY: RESPONDING TO GLOBAL CHANGE, CONCLUDES THAT THE INTERNATIONAL AIR TRANSPORT SECTOR AND THE RANGE OF BUSINESS ACTIVITIES THAT IT SUPPORTS WOULD BENEFIT GREATLY FROM LIBERALIZATION. THE REPORT ADVOCATES THE ESTABLISHMENT OF AN INTERNATIONAL AIR TRANSPORTATION SYSTEM BASED PRIMARILY ON MARKET PRINCIPLES. FAILURE TO DO SO WILL PERPETUATE MAJOR INEFFICIENCIES IN AIR TRANSPORT, THEREBY THREATENING THE ABILITY OF THIS SERVICE SECTOR TO RESPOND TO THE EVOLVING TRANSPORT NEEDS OF THE RAPIDLY INTEGRATING GLOBAL ECONOMY. THE U.S. IS PARTICULARLY SATISFIED WITH THE REPORT'S BROAD CONCLUSIONS BECAUSE, AFTER THREE YEARS OF CAREFUL ANALYSIS, THE OECD FINDINGS AFFIRM THE PRO-LIBERALIZATION CONCEPTS SET OUT IN THE CLINTON ADMINISTRATION'S 1995 INTERNATIONAL AVIATION POLICY STATEMENT.

TRANSFORMING THE CONCEPTS OF THE POLICY STATEMENT INTO OPERATING OPPORTUNITIES HAS TAKEN SUBSTANTIAL CREATIVITY AND LEADERSHIP IN BREAKING OUT OF OLD NEGOTIATING MOLDS. WE HAD TO LEAVE BEHIND THE MERCANTILISTIC AVIATION TRADE WORLD OF TIT-FOR-TAT BEAN COUNTING AND NEGOTIATE FAR MORE STRATEGICALLY. OUR LIBERALIZATION FOCUS OFTEN BECAME BROADER THAN ANY SINGLE COUNTRY MARKET. WE LOOKED AT GROUPS OF MARKETS NOT SOLELY FOR THEIR ECONOMIC VALUE TO U.S. INTERESTS, BUT ALSO FOR THEIR STRATEGIC VALUE IN INFLUENCING THE TRANSFORMATION OF ENTIRE REGIONS.

A PRIMARY IMPETUS FOR THIS OPEN-SKIES APPROACH WAS THE DESIRE TO MAKE THE GLOBAL STRATEGIES OF U.S. AND FOREIGN AIRLINES COMMERCIALY ACHIEVABLE. MANY AIRLINES REALIZED THAT NETWORKING WITH OTHER AIRLINES' ROUTE SYSTEMS PERMITTED EXPANDED MARKET PENETRATION ON A RAPID, COST-EFFECTIVE, AND LIMITED RISK BASIS. AFTER CAREFUL CONSIDERATION OF THEIR POTENTIAL COMPETITIVE CONSEQUENCES, THE DEPARTMENT HAS GRANTED ANTITRUST IMMUNITY TO SEVERAL STRATEGIC MARKET ALLIANCES BETWEEN U.S. AND FOREIGN AIR CARRIERS WHOSE HOMELANDS HAVE ENTERED INTO OPEN AVIATION REGIMES WITH US. THIS IMMUNITY ALLOWS THE PARTNER AIRLINES TO INTEGRATE THEIR SEPARATE SYSTEMS INTO HIGHLY EFFECTIVE NETWORKS. THESE MULTICARRIER NETWORKS, IN TURN, COMPETE WITH EACH OTHER AND, IN THE PROCESS, EXPAND THE PRODUCT CHOICES AND PRICES AVAILABLE TO CONSUMERS.

ADOPTION OF THIS NEW APPROACH HAS RESULTED IN SEVERAL REGIONAL OPEN-SKIES INITIATIVES BY THE UNITED STATES. FIRST, IS OUR EUROPEAN INITIATIVE BEGUN IN 1995. WE OFFERED ANY COUNTRY IN EUROPE THE OPPORTUNITY TO ENTER INTO AN OPEN MARKET REGIME WITH THE UNITED STATES. ORIGINALLY NINE COUNTRIES SIGNED. ADDING THESE TO THE EARLIER DUTCH OPEN-SKIES AGREEMENT CREATED A GROUP OF TEN COUNTRIES BETWEEN WHICH U.S. AIRLINES COULD FREELY NETWORK ON THEIR OWN OR IN PARTNERSHIP WITH ANY OF THE AIRLINES OF THE SIGNATORY COUNTRIES. WITHIN A YEAR, THE POSITIVE MARKET RESULTS FOR THE GROWING ALLIANCE PARTNERSHIPS BETWEEN NORTHWEST AND KLM AND AMONG DELTA, AUSTRIAN, SABENA, AND SWISSAIR, MOVED GERMANY TO ABANDON ITS RESURGENT PROTECTIONISM AND INCLUDE ITS AIRLINES IN THE OPEN-SKIES DYNAMIC. SHORTLY AFTER, THE CZECH REPUBLIC JOINED. TODAY, WE HAVE 12 EUROPEAN OPEN-SKIES COUNTRIES, SEVERAL SUCCESSFUL ALLIANCES BETWEEN U.S. AND EUROPEAN AIRLINES, AND FORTY PERCENT OF ALL TRAFFIC BETWEEN THE U.S. AND EUROPE ENJOYING THE BENEFITS OF CARRIER AND NETWORK COMPETITION.

THE EUROPEAN OPEN SKIES INITIATIVE IS STILL BEARING FRUIT. COUNTRIES, SUCH AS SPAIN, ITALY AND FRANCE, WHICH PREVIOUSLY WOULD NOT SO MUCH AS WHISPER "OPEN-SKIES", ARE STEPPING FORWARD TO DISCUSS A MORE LIBERAL AND OPEN AVIATION RELATIONSHIP WITH THE UNITED STATES, AND THEIR AIRLINES ARE PURSUING ALLIANCE PARTNERSHIPS. THE EUROPEAN COMMISSION, WHICH FOR YEARS HAS SOUGHT A NEGOTIATING MANDATE FROM THE MEMBER STATES OF THE UNION, HAS CONFIRMED THAT THE EVENTUAL POSITION OF THE COMMISSION REGARDING A NORTH ATLANTIC AVIATION REGIME WILL EMBRACE ALL THE TERMS OF OPEN-SKIES. COMMERCIAL IMPERATIVES HAVE DRIVEN EVEN THE U.K. INTO OPEN-SKIES NEGOTIATIONS WITH US.

MOVING TO THE WESTERN HEMISPHERE, I NEED NOT RECOUNT TODAY THE TREMENDOUS SUCCESS OF THE U.S.-CANADA OPEN TRANSBORDER AVIATION AGREEMENT OF 1995, AND WE LOOK FORWARD TO COMPLETING THE LIBERALIZATION OF OUR AVIATION RELATIONSHIP . WE NOW SEEK TO SHARE WITH OUR PARTNERS TO THE SOUTH THE BENEFITS WE SHARE WITH OUR NEIGHBOR TO THE NORTH.

AN IMPORTANT GOAL OF THIS ADMINISTRATION IS THE OPENING UP OF TRADE AND TOURISM WITH THE CARIBBEAN, CENTRAL AMERICA AND THE REST OF LATIN AMERICA. THE EXPANSION OF TRADE AND TOURISM BETWEEN THE UNITED STATES AND LATIN AMERICA WILL STIMULATE ECONOMIC AND COMMERCIAL GROWTH FOR NOT ONLY THE UNITED STATES, BUT FOR EVERY COUNTRY IN LATIN AMERICA.

AIR TRANSPORTATION IS A CRITICAL ELEMENT IN DETERMINING WHETHER WE SUCCEED IN ACHIEVING THE MULTI-FACETED GOALS OF EXPANDED TRADE, TOURISM, AND COMMERCIAL DEVELOPMENT. THAT IS WHY LAST FALL THE UNITED STATES, IN CONSULTATION WITH THE GOVERNMENTS OF CENTRAL AMERICA, ANNOUNCED AN INITIATIVE TO NEGOTIATE OPEN-SKIES AVIATION AGREEMENTS WITH ANY INTERESTED COUNTRY IN CENTRAL AMERICA. I AM PLEASED TO INFORM YOU THAT THIS INITIATIVE HAS YIELDED SIX NEW OPEN-SKIES AGREEMENTS. ON MAY 8, DURING PRESIDENT CLINTON'S SUMMIT IN COSTA RICA, SECRETARY SLATER SIGNED OPEN-SKIES AVIATION AGREEMENTS WITH COSTA RICA, EL SALVADOR, GUATEMALA, HONDURAS AND NICARAGUA. ALSO ON MAY 8, IN PANAMA CITY, PANAMA SIGNED AN OPEN-SKIES AVIATION AGREEMENT WITH THE UNITED STATES. IN ADDITION, WE ARE CONTINUING TO WORK ON OPEN SKIES WITH BELIZE AND THE DOMINICAN REPUBLIC.

CONTINUING WESTWARD, WE ARE CURRENTLY INVOLVED IN A MAJOR REGIONAL OPEN-SKIES INITIATIVE IN THE PACIFIC RIM. AS A FIRST STEP, THIS ASIAN INITIATIVE INCLUDES SINGAPORE, TAIWAN, BRUNEI, MALAYSIA, KOREA, AND NEW ZEALAND AS ECONOMIES WITH WHOM WE WOULD SHARE OPEN AVIATION REGIMES. WE HAVE SIGNED AN OPEN-SKIES AGREEMENT WITH SINGAPORE AND HAVE INITIALED OPEN-SKIES AGREEMENTS WITH TAIWAN AND BRUNEI. OUR NEGOTIATORS HAVE JUST RETURNED FROM KOREA AND WE EXPECT TO REACH FINAL AGREEMENT IN JULY. WE ARE NEGOTIATING AN OPEN SKIES AGREEMENT WITH MALAYSIA THROUGH OUR EMBASSY IN KUALA LUMPUR, AND WE ARE VERY CLOSE TO REACHING FINAL AGREEMENT. JUST LAST THURSDAY, MAY 29, WE INITIALED AN OPEN SKIES AGREEMENT WITH NEW ZEALAND, WHICH WE ANTICIPATE FORMALLY SIGNING IN JULY.

WE LOOK FORWARD TO THE SIGNING AND IMPLEMENTATION OF THESE AGREEMENTS BECAUSE THEY PROVIDE A STRONG FOUNDATION FOR AN OPEN COMPETITIVE AVIATION REGIME IN THE ASIA/PACIFIC MARKET. ACCORDING TO A RECENT BOEING REPORT, U.S.-SOUTHEAST ASIA AIR TRAFFIC MORE THAN TRIPLED OVER THE LAST DECADE. IT IS EXPECTED TO MORE THAN DOUBLE AGAIN IN THE NEXT DECADE, WITH A PROJECTED ANNUAL GROWTH RATE OF SEVEN PERCENT.

AS A COMPLEMENT TO OUR BILATERAL OPEN-SKIES APPROACH, THE U.S., AS MANY OF YOU KNOW, HAS BEEN WORKING CLOSELY WITH OTHER NATIONS OF THE ASIA-PACIFIC REGION TO DEVELOP APEC (THE ASIAN-PACIFIC ECONOMIC COUNCIL) AS AN EFFECTIVE FORUM FOR PROMOTING THE ECONOMIC GROWTH AND DEVELOPMENT OF THE REGION. APEC HAS TAKEN A MAJOR STEP IN THAT DIRECTION BY COMMITTING ITSELF TO ACHIEVING FREE TRADE AND INVESTMENT LIBERALIZATION ACROSS ALL SECTORS AND ALL DEVELOPED ECONOMIES OF THE

REGION BY THE YEAR 2010. IT HAS ALSO ESTABLISHED AN "ACTION PLAN" FOR ACCOMPLISHING THAT OBJECTIVE IN ALL SECTORS -- INCLUDING AVIATION. WE WELCOME THESE DEVELOPMENTS, AND WE INTEND TO CONTINUE TO WORK WITH APEC TO PROMOTE COMPETITIVE AIR SERVICE IN THE REGION.

IN THE MEANTIME, WE ARE PARTICULARLY ENCOURAGED BY THE RESULTS, ON THE BILATERAL LEVEL, OF OUR ASIAN OPEN-SKIES INITIATIVE SINCE THE FACTORS WHICH ARE CONTRIBUTING TO ITS SUCCESS SHOULD ALSO HELP US TEAR DOWN OTHER AVIATION TRADE BARRIERS IN THE REGION.

AT THIS POINT, IT WOULD BE LOGICAL TO BEGIN A DISCUSSION ON OUR RELATIONSHIP WITH JAPAN. HOWEVER, THE SUBCOMMITTEE HAS DEFERRED THAT TOPIC TO ANOTHER DAY LATER THIS MONTH.

IN SUMMARY , I BELIEVE THAT, WITH THE COMING TOGETHER OF COMMERCIAL FORCES AND ENLIGHTENED GOVERNMENTS, WE WILL ACHIEVE OUR GLOBAL OPEN-SKIES GOAL -- TIME IS ON OUR SIDE; THE MARKET RESULTS FOR AIRLINES ALREADY ENJOYING LIBERALIZATION ARE ON OUR SIDE; AND FORWARD THINKING AIRLINES AND GOVERNMENTS THAT WISH TO BE SIGNIFICANT PLAYERS IN SHAPING THE NEXT DECADE OF INTERNATIONAL AIR TRANSPORT ARE ON OUR SIDE.